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STATE OF MONTANA
REPORT TO THE LEGISLATURE
DEPARTMENT OF HEALTH
AND ENVIRONMENTAL SCIENCES

Report on the Examination
of Financial Statements
Two Fiscal Years Ended June 30, 1982



OFFICE OF THE LEGISLATIVE AUDITOR

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Two Fiscal Years Ended June 30, 1982

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ADMINISTRATIVE OFFICIALS

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Dr. John J. Drynan

Director

John W. Bartlett

Deputy Director

Ray Hoffman

Administrator
Centralized Services Division

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Departments of Health and Environmental Sciences; Fish, Wildlife, and Parks; Commerce, Aeronautics Division; the Montana State Library; and Office of Public Instruction are included in the back of this report.

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1. House film libraries at the Office of Public Instruction. 8

Agency Replies:

Department of Health and Environmental Sciences
Concur. See page 50.

Department of Fish, Wildlife, and Parks
Concur. See page 53.

Department of Commerce
Do Not Concur. See page 54.

Montana State Library
Do Not Concur. See page 57.

Office of Public Instruction
Concur. See Page 58.

2. Ensure that all grant subrecipients are audited every two years in accordance with the requirements of the Office of Management and Budget "Circular A-102." 11

Agency Reply. Concur. See page 50.

- 3.A. Implement procedures to assure the internal auditor's independence from the program audited. 12

Agency Reply. Concur. See page 50.

- 3.B. Develop procedures for the review of the internal auditor's audit programs and workpapers. 13

Agency Reply. Concur. See page 50.

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<u>Agency Reply.</u> Concur. See page 51.	
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BACKGROUND

The Department of Health and Environmental Sciences was established by law in 1901 as the Board of Health. The department was renamed and reorganized as a result of the Executive Reorganization Act of 1971.

The general rules governing the department are detailed in Title 50, MCA (Health and Safety). The department administers the state program for comprehensive health planning.

To administer the laws, the department is organized into six divisions:

1. Centralized Services
2. Laboratory
3. Hospital and Medical Facilities
4. Environmental Sciences
5. Health Services
6. Legal

The responsibilities of the divisions include administrative and fiscal functions, analysis of public drinking water, licensing and analysis of health facilities, air quality testing, review and preparation of environmental impact statements, and the prevention and treatment of disabling diseases.

Attached to the department is the Board of Health and Environmental Sciences. The quasi-judicial board consists of seven members appointed by the governor. The board advises the department in public health matters. It has the authority to establish rules and hold hearings on health matters, such as air quality, water quality, and solid waste management.

The department has approximately 300 full-time equivalent employees authorized. Expenditures for fiscal years 1980-81 and 1981-82 were \$18,785,000 and \$18,874,000, respectively. State expenditures of federal moneys account for more than 75 percent of the total department expenditures. Total revenues collected during the two fiscal years were \$16,189,000 and \$15,948,000, respectively.

The department headquarters is located in the Cogswell Building in Helena. The majority of employees work in Helena, but the department also has employees located in other cities. The department works closely with county health departments throughout the state and contracts with counties, individuals, and other organizations in administering the state health and environmental programs.

INTRODUCTION

We performed a financial/compliance audit of the Department of Health and Environmental Sciences for the two fiscal years ended June 30, 1982. The objectives of the audit were to: (1) determine if the department's financial statements present fairly the financial position for the fiscal year ended June 30, 1982 and the results of its operations for the two fiscal years then ended; (2) determine the department's compliance with applicable laws and regulations; and (3) make recommendations for improvement in the department's management and internal controls.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

To meet federal reporting requirements the body of the audit report discusses instances of noncompliance with federal laws and regulations.

We thank the director and his staff for their cooperation and assistance during our audit.

PRIOR AUDIT RECOMMENDATIONS

The previous audit of the Department of Health and Environmental Sciences was performed by a CPA firm under contract with the Office of the Legislative Auditor. This audit was of the two fiscal years ended June 30, 1980. The report contained four recommendations. The department concurred with and implemented all four recommendations.

FILM LIBRARIES

Currently there are five film libraries established by state agencies. They are located at the Departments of Health and Environmental Sciences (DHES), Fish, Wildlife, and Parks (FWP), and Commerce, Aeronautics Division; the Montana State Library; and the Office of Public Instruction (OPI). The Montana State Library has contracted with the Butte Silver Bow Public Library to provide film library service for the state since September 1981. This contract currently costs the State Library \$10,000 per year.

We analyzed the costs associated with maintaining the film libraries at the various agencies and the housing of the libraries at one location. Each of these libraries duplicates some activities performed by the others and the state should realize a cost savings by housing the maintenance and distribution services at one location.

The following are examples of areas where a consolidation of library maintenance and distribution services will result in cost savings for the state:

1. Each location has full-time equivalent employees (FTE) allocated to maintain a film library. If the film library services are consolidated the state should realize FTE savings.
2. Two libraries have sophisticated film repair and maintenance equipment. This equipment is expensive to purchase and maintain. Housing the film libraries at one location requires only one set of film repair and maintenance equipment rather than two sets.
3. Two libraries publish film library catalogs which are mailed to persons on different subscriber lists. Publication and postage costs will be reduced if one catalog is published.

OPI provides a good location for the housing of the state's film libraries. OPI utilizes a computerized recordkeeping system for its films. The system processes the film scheduling and billing. It also maintains a master mailing list and prints labels with the names and addresses of subscribers who request copies of the film library catalog. The OPI film library houses all the necessary equipment for film maintenance including cleaning and repairing capabilities. OPI personnel are trained to repair and maintain this equipment.

The OPI library facility has already absorbed Highway Patrol, Mountain Bell, and Canadian Consulate educational films. It currently maintains approximately 6,700 films with a circulation of 20,000 - 25,000 films per year. If the other four libraries were to merge with OPI, it would increase OPI's films by approximately 1,360 and circulation by about 7,600 showings per year. An OPI

official stated that when the office began charging fees for film usage, the circulation dropped from 80,000 films per year to the current 20,000 to 25,000 films per year. He indicated consolidating the film library services at their facility would not significantly affect the library's operation. He estimated the number of library FTEs would increase by as much as one FTE, and he said it would require funds during the first year to purchase new film racks and other items needed to combine the facilities.

Currently, DHES mails films from its film library at the standard parcel post rate. OPI has received authorization from the U.S. Post Office to use the special library bulk third class rate. DHES would have saved approximately \$1 for each of the estimated 1,200 films mailed in fiscal year 1981-82 if they had used the special rates.

We estimated the state would save up to \$28,000 annually in personal service and contract costs if the film libraries were housed at one location. The state would also realize savings in other areas, including postage, repair, and maintenance costs. Space allocated for film libraries at DHES, FWP and the Aeronautics Division would be available for other uses. Equipment used for film cleaning and repair at DHES could be surplusd or sold.

Officials at DHES, FWP, the Aeronautics Division, and the Montana State Library voiced concerns about housing the film libraries at OPI. Most of the concerns expressed by the agencies relate to the items listed below:

- who would have the authority to determine whether or not a fee would be charged to the user for films purchased in the future with an agencies' funds;
- the potential decrease in film circulation if user fees are assessed when previously the films were provided free of charge or at a lower rate. Currently OPI and the State Library charge users for use of films, while DHES, FWP and the Aeronautics Division do not charge user fees;
- the amount charged for maintenance and distribution and how the amount is selected;
- continued accessibility of the films to current users;
- the structure of the published film catalog (i.e., separate listings for each agencies' films so particular categories of films can be easily identified by users);
- sensitive films restricted to use by specific types of viewers would not be released to any other user;
- responsibility for the selection and purchase of new films; and
- the potential decrease in an agency's contact with the public.

Decisions relating to the items listed should be handled as policy decisions at each agency in coordination with OPI.

An OPI official indicated the office should be able to accommodate most of the concerns of the other agencies. The office intends to cooperate to meet the special needs of each agency involved. However, the official said each of the agencies involved must cooperate to merge their libraries into the OPI film maintenance and distribution system. He recommended that each of the consolidating agencies meet with OPI to discuss the specifics of merging the film libraries.

Officials at OPI, FWP, and the State Library have expressed agreement in principle with the consolidation of film maintenance

and distribution services at OPI. Personnel at FWP and the State Library are willing to meet with OPI to work out the specifics. DHES and Aeronautics Division officials indicated they do not agree with housing their film libraries at the OPI. They feel the merging of libraries is strictly for economic purposes. The program needs of DHES outweigh the budgetary concerns in the consolidation. DHES officials stated that if a user fee is charged, circulation of DHES films may decrease causing a negative impact on education in the state.

After a consolidation of the libraries, the DHES, FWP, and the Aeronautics Division may lose some direct contact with the general public. However, by housing the libraries at one location films will be more available to the public. Persons requesting films could send requests to OPI for the films rather than to the other agencies. Organizations or persons requiring films can go to one source for a complete catalog of films rather than to four different sources. This should increase the availability of the films to the general public. DHES, FWP, and the Aeronautics Division could refer individual requests for films to OPI and assist them in obtaining the appropriate film. In addition, each agency may elect to charge users for films or pay for the handling and postage out of their operating budget; as some agencies are doing now. This should avoid overall decreases in circulation.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES; THE DEPARTMENT OF FISH, WILDLIFE, AND PARKS; THE DEPARTMENT OF COMMERCE, AERONAUTICS DIVISION; AND THE MONTANA STATE LIBRARY HOUSE THEIR FILM LIBRARIES AT THE OFFICE OF PUBLIC INSTRUCTION.

FEDERAL COMPLIANCE

The department receives a significant portion of their funding from federal sources. Office of Management and Budget (OMB) "Circular A-102, Attachment P," establishes audit requirements for state and local governments receiving federal assistance. Attachment P provides for independent audits of financial operations, including compliance with certain federal laws and regulations. We performed our audit of the department in accordance with the standards of OMB "Circular A-102, Attachment P."

We reviewed the major compliance areas in the Women, Infants, and Children (WIC); Family Planning; Child Nutrition; Maternal Child Health Block Grant; Preventive Health Block Grant; Federal Air Quality; Environmental Protection Agency Radon testing; Emergency Medical Services Advanced Medical Training; and Supplemental Security Income programs. Areas reviewed include:

1. eligibility determination,
2. internal control and reporting systems,
3. monitoring of subgrantees,
4. DHES program effectiveness reviews and audits,
5. meeting federal objectives, and
6. cost allowability.

During our review we noted compliance problems in the following areas:

- Audits of Subrecipients
- Financial Status Reporting System
- Matching Funds

Each of these areas are discussed in separate sections beginning on page 10.

We determined the effects of noncompliance on program accomplishments and the allowability of costs. In the following sections of our audit report we discuss compliance and internal control problems requiring disclosure in accordance with Attachment P. Other compliance deficiencies deemed not to have significant effect on the successful operations of the department programs are not specifically included in the report, but have been discussed with management. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

As a result of our review, it is our opinion that the deficiencies noted did not significantly affect the successful operation of the programs or the allowability of costs in conformity with program regulations.

Audits of Subrecipients

Grant revenues accounted for 90 percent of the department's total revenues in fiscal year 1981. The department federal grant receipts totaled \$14,526,000 in fiscal year 1980-81 and \$13,896,000 in fiscal year 1981-82. Portions of these grants are passed on to subrecipients.

The department employs an internal auditor to review the accounting records of some subrecipients, while others are not audited by the department. We noted several areas of noncompliance with federal regulations regarding audits of subrecipients and the work performed by the internal auditor.

The department does not require subrecipients to obtain audits or submit audit reports. Office of Management and Budget (OMB) "Circular A-102, Attachment P," establishes audit requirements for state and local governments that receive federal assistance. This circular requires that audits of recipients and subrecipients be performed at least once every two years. The department's internal auditor performs audits of subrecipients of Family Planning; Child Nutrition; Women, Infants, and Children; and Environmental Protection Agency grant moneys. The auditor does not audit each subrecipient every two years.

The department does not require biennial audits of subrecipients, except for those audited by the internal auditor. We noted there are subrecipients who either are not contracting for audits, or not submitting audit reports to the department. One method of complying with the audit requirement is for the department to specify in contracts with subrecipients that the subrecipient must

arrange for audits by independent auditors. Audits should comply with OMB "Circular A-102, Attachment P" as specified in the subrecipient contracts. The department should monitor subrecipient contracts to ensure compliance.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT ENSURE THAT ALL GRANT SUBRECIPIENTS ARE AUDITED EVERY TWO YEARS IN ACCORDANCE WITH THE REQUIREMENTS OF THE OFFICE OF MANAGEMENT AND BUDGET "CIRCULAR A-102."

Internal Auditor

The internal auditor's programs and audit reports do not fully comply with the audit requirements outlined in the "Standards for Audit of Governmental Organizations Programs, Activities, and Functions," 1981 Revision. These standards detail audit requirements of recipients and subrecipients of federal funds. Full compliance with the "Standards For Audit of Governmental Organizations, Programs, Activities, and Functions," 1981 revision, is required for entities receiving federal assistance.

We reviewed the internal auditor's programs, workpapers, and audit reports for the Child Nutrition; Family Planning; and Women, Infants, and Children (WIC) programs. This review identified the problem areas discussed below:

1. Independence - The internal auditor does not appear independent because his assignments are made by personnel administering the programs he audits. The appearance of independence is difficult for an internal auditor to achieve. Care must be taken to assure the internal auditor reports to an administrator who is outside the audited programs. The auditor should not receive assignments from program personnel.
2. Audit Workpapers - Audit workpapers must be complete and accurate, and include support for findings, judgments, and conclusions. The internal auditor's workpapers do not indicate what work was done to support his conclusion or, in some cases, if any work was done. No one reviews his work to determine its adequacy.
3. Supervision - The internal auditor's work should be reviewed and supervised by a person who is familiar with the GAO audit standards.
4. Compliance - Audits of federal programs must include tests of compliance with federal regulations. The internal auditor's programs include reviews of compliance. However, compliance tests do not include tests of nutritional education (WIC) or applicant or subrecipient eligibility (Family Planning). The internal auditor also does not utilize current audit guides. These guides should be used to update the audit programs.
5. Audit Tests - Family Planning audits did not contain tests of accounts receivable. Tests of these balances are necessary if an opinion on the financial statements is to be given. Tests of accounts receivable have been included in the Family Planning program since the completion of our fieldwork.

The correction of the problems detailed above will help ensure the internal auditor's reports comply with governmental audit standards.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT:

- A. IMPLEMENT PROCEDURES TO ASSURE THE INTERNAL AUDITOR'S INDEPENDENCE FROM THE PROGRAM AUDITED.

- B. DEVELOP PROCEDURES FOR THE REVIEW OF THE INTERNAL AUDITOR'S AUDIT PROGRAMS AND WORK-PAPERS.
- C. UPDATE AUDIT PROGRAMS BY REVIEWING CURRENT AUDIT GUIDES AND FEDERAL REGULATIONS.

Financial Status Reports

The department is completing grant final financial status reports improperly. We noted several instances where the department showed a zero balance in the unliquidated obligations column when there were outstanding obligations.

Final and annual reports are to be completed within 90 days after the end of the specified period. Final reports must show a zero balance as unliquidated obligations. However, the department has been reporting obligations still outstanding as expenditures.

This procedure has resulted in a misstatement of expenditures in the federal reports. In August 1981, the department filed a final report on the State Fluoridation Project. This report indicates that expenditures were \$28,800, the total authorized. Total expenditures, when the related contract was complete, were \$28,269. Expenditures on the 1981 final report were overstated by \$531. This overstatement resulted in a reduction of expenditures shown on the final report for 1982.

This problem could have been avoided if the department had indicated that their August report was not a final report, and that a final report would be filed when outstanding contracts were completed. Similar problems could be avoided by liquidating outstanding obligations or requesting an extension on the grant.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE ALL FINANCIAL STATUS REPORTS ARE PROPERLY COMPLETED.

Matching Funds

Federal Air Quality grants received by the department and passed on to counties (subgrantees) must be matched with other county funds. The department reports these county matching funds and other grant information to the federal government on a financial status report. We noted the department does not have documentation supporting the matching amounts shown on the financial status report.

Counties are required under a DHES contract to submit quarterly financial data to the department showing the matching funds spent on air quality programs. However, the department does not enforce this contract requirement. During fiscal years 1980-81 and 1981-82, 24 county financial reports should have been filed with the department. We noted five of the required reports were filed in the department's records.

A department official indicated the information reported to the federal government is obtained from the counties by telephone. Therefore, the department has no documentation to support the matching amounts reported to the federal government.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT:

- A. ENFORCE THE CONTRACT PROVISIONS REQUIRING SUBGRANTEES TO SUBMIT FINANCIAL DATA.
- B. ESTABLISH PROCEDURES TO ENSURE ALL DATA SUBMITTED ON FEDERAL FINANCIAL STATUS REPORTS ARE SUPPORTED BY DOCUMENTATION IN ITS FILES.

EQUIPMENT AND INVENTORY ACCOUNTABILITY

The DHES utilizes the state Property Accountability Management System (PAMS) to account for equipment. The department adopted the PAMS system in fiscal year 1979-80. Previously, the department maintained its own system to account for property items.

Our audit resulted in an unqualified opinion on the fixed asset group of accounts. Although we concluded the financial statement amounts are not materially misstated, action should be taken to improve the following internal control weaknesses, accounting procedures, and compliance issues.

Internal Control Issues

Inventory Plan

The department does not have a formal plan for taking inventory of their equipment as suggested in state policy. In the past, the inventory was taken by the same individual responsible for original input into the PAMS system. The individual reviews the PAMS inventory listing and assures that all items reported on the listing actually exist. This does not provide assurance that all

items are recorded on the system (i.e., items which were not input to PAMS).

Communications

Transfers, deletions, and purchases of equipment within the agency require coordination between the responsible property manager and individual property officers at the various bureaus within the agency. In order to assure all equipment is properly accounted for this communication link is essential.

We noted bureau chiefs and division administrators do not communicate equipment changes to the accounting clerk responsible for updating the accounting system. Eleven of twenty items we tested were improperly recorded on PAMS because the accounting clerk was unaware of changes. Six of ten deleted items tested did not have adequate documentation indicating the reason for the deletion. This problem resulted because property officers did not communicate lost, stolen, or otherwise deleted items to the Centralized Services Division.

The department should assign responsibility for items of equipment with division administrators or bureau chiefs. An employee in each division or bureau should be delegated the responsibility and required to sign a receipt for the equipment. This individual should be responsible for communicating changes in equipment status to the property clerk in the Centralized Services Division.

Equipment Tagging Procedures

Each equipment item valued over \$200 should be assigned a property tag number and accounted for on the PAMS system as required by state policy. We observed instances where the same

tag number was assigned to several equipment items, each valued at more than \$200. For example, nine human torso models valued at \$815 each were assigned one tag number. Because this equipment is continually transferred around the state, the lack of a unique tag number on each item complicates control of the equipment.

Inter-Agency Transfers

When the State Merit System was consolidated with the Department of Administration, Personnel Division, several equipment items were transferred to the DHES. These items, costing \$2,370, were not recorded on the DHES accounting system. This error occurred for two reasons. Persons who received the equipment failed to communicate the acquisition to Centralized Services Division, and secondly, department personnel were not familiar with the proper accounting procedures for transferred property.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT:

- A. INVENTORY ALL EQUIPMENT ANNUALLY AND RECORD ALL ITEMS ON THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.
- B. RECORD ALL EQUIPMENT STATUS CHANGES ON THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.
- C. TAG EACH EQUIPMENT ITEM COSTING MORE THAN \$200 WITH A NUMBER SPECIFICALLY IDENTIFYING THE ITEM.
- D. RECORD ALL INTER-AGENCY EQUIPMENT TRANSFERS ON THE PROPERTY ACCOUNTABILITY MANAGEMENT SYSTEM.

Accounting Procedures

Films Inventory

The department operates a film library to educate the general public in health subject matters. The library contains approximately 1,000 films and video tapes, which are accounted for by one property tag number. When new films are purchased the value is added to the tag number. However, when films are lost, stolen, destroyed or deleted from the library, their value is not subtracted from the valuation record. As a result, we estimated the films' value, reported at \$197,981, is overstated by approximately \$39,200, or approximately 20 percent.

The department should maintain a file containing the cost of each film in its library. When a film is deleted its costs should be deducted from the film library amount reported on the state's accounting records.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT:

- A. ACCOUNT FOR THE COST OF EACH FILM SEPARATELY.
- B. PROPERLY DELETE DISPOSED FILMS FROM THE FILE.
- C. ASSIGN A REASONABLE COST TO THE FILM LIBRARY INVENTORY.

Replacement Parts

The department improperly recorded replacement parts on PAMS. The parts were purchased by the department in quantity and recorded on the PAMS equipment listings. The parts were

assigned a single property tag number. They cost less than \$200 per unit and, once installed, are no longer identifiable to the original lots; or they may no longer exist.

State policy indicates that only fixed assets should be reported on PAMS. Fixed assets are relatively permanent items of equipment with a unit cost of \$200 or more, and a useful life of more than one year.

As a result, the value of equipment recorded on the department's PAMS records was overstated by \$4,680.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT RECORD FIXED ASSETS ON PAMS IN ACCORDANCE WITH STATE POLICY.

Supplies Inventory

A department official estimated that at June 30, 1982 the laboratory maintained \$50,000 in supplies inventories. These inventories were not counted or recorded on the department's fiscal year-end SBAS financial reports. As a result, the department's financial statements do not report the amount of inventories on hand.

Management Memo 2-81-2 requires state agencies to take a physical inventory of supplies as of each June 30 and record the amounts on SBAS.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT INVENTORY THE LABORATORY SUPPLIES EACH JUNE 30 AND RECORD THE AMOUNTS ON SBAS.

RADIOACTIVE SUBSTANCES

The department does not license users of certain radioactive substances as required by state law. The law states the department shall license persons to receive, possess, or transfer radioactive materials and equipment. A department official said the Legislature established the licensing requirement but did not provide funds requested by the department to finance the program.

Radioactive phosphate slag and Radium 226 are examples of radioactive substances used in Montana. The law requires that users of these substances be licensed. Users of radioactive materials produced by nuclear reactors or found in mill tailings are licensed by the Nuclear Regulatory Commission and are not required to be licensed by DHES.

Radioactive phosphate slag is sometimes used in the construction of road beds. Medical facilities sometimes use Radium 226 in the treatment of patients. Recently, a railroad requested a license to use radioactive phosphate slag in the construction of a railroad bed. The department denied the license because the department did not have the funds to properly review the planned use of the slag. A department official stated the railroad used the radioactive slag without a proper license in violation of state law. He indicated the department did not initiate legal action against the railroad.

The radioactive phosphate slag is similar to the type used in the construction of roads in Butte before controls over radioactive materials were established. A recent department study of the radioactivity emitted by the Butte roads indicate the exposure to persons living in the area is equivalent to one chest x-ray per month.

The official stated the department does not issue licenses because without adequate review and supervision they would be certifying the licensees as having the necessary controls and training to safely use the substances; that is what the general public would expect of the department before issuing a license.

The official estimated the program to license and inspect users of radioactive substances would cost \$35,000 per year. The program would add 1 FTE and increase the travel budget of the Occupational Health Bureau of the department.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT LICENSE USERS OF RADIOACTIVE SUBSTANCES IN ACCORDANCE WITH STATE LAW.

INTERNAL CONTROLS

We have examined the financial statements of the Department of Health and Environmental Sciences (DHES) for the two fiscal years ended June 30, 1982. We issued our opinion dated August 27, 1982 on these statements. As part of our examination, we made a study and evaluation of the system of control of DHES. Our study

evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue/receipts;
2. payroll;
3. expenditures/payables;
4. cash;
5. investments; and
6. plant, property, and equipment.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to accounts receivable and inventories. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of DHES is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation

should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by DHES. However, our study disclosed conditions that could result in financial statement errors that would be difficult to detect. These conditions relating to cash collections, accounts receivable, and plant, property, and equipment are discussed on pages 23, 27, and 15.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements. This report on internal control does not affect our opinion on the financial statements.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

CASH COLLECTION PROCEDURES

Prior to July 1982, cash collection at the Department of Health and Environmental Sciences was decentralized. Each bureau had responsibility to collect and deposit revenue. We evaluated the cash collection system and determined internal controls over cash receipts were adequate in some bureaus and not adequate in others. During the audit we performed alternative substantive testing to determine the reasonableness of revenues reported on the financial statements.

In July 1982, the department established a centralized cash receipt collection system. Under this system all cash receipts, except receipts from walk-in customers, are collected and recorded on the accounting records by the Centralized Services Division.

The new system significantly improved the department's system of internal control over cash collection. The department should be congratulated for its efforts in this area.

Though our study of the new system indicated significant improvements over the old system, we did note several weaknesses which if corrected would enhance its reliability. These weaknesses are:

1. Only one individual is responsible for coding the accounting documents and inputting them to SBAS. If the Centralized Services bureau chief or his assistant would review and approve the accounting documents management would have greater assurance that the data is properly recorded on SBAS.
2. Accounting documents processed by the department are not reconciled to those recorded on SBAS. SBAS documents should be recorded on a document numbering log prior to submitting the documents for input to SBAS. The transactions recorded on the log should then be reconciled to those recorded on SBAS. This would assure management that no SBAS documents were lost in transit to the Department of Administration or while being keypunched onto the computer.
3. Cash collections for walk-in customers are not centralized. Individual bureaus collect fees from walk-in customers. This procedure partially defeats the purpose of centralizing cash collections. Walk-in customers should pay all fees to a cashier under the supervision of the Centralized Services Bureau before receiving services. Because cash would be collected in only one location management control over cash collection will be enhanced. Also, since the department has centralized its divisions in one building, it is practical for all walk-in customers to pay a central cashier.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT:

- A. ESTABLISH A SYSTEM FOR MANAGEMENT REVIEW AND APPROVAL OF COLLECTION REPORTS PRIOR TO DOCUMENT INPUT TO SBAS.
- B. RECONCILE SBAS DOCUMENTS RECORDED ON THE ACCOUNTING RECORDS TO THOSE PROCESSED BY CENTRALIZED SERVICES.
- C. REQUIRE WALK-IN CUSTOMERS TO PAY THE CENTRALIZED SERVICES BUREAU BEFORE THE SERVICES ARE PROVIDED.

ACCOUNTING PROCEDURES

The department's Centralized Services Division is responsible for proper application of accounting procedures. During our audit we noted the following problems with accounting procedures.

Accounting for Laboratory Testing

State law requires the laboratory fees be deposited in the General Fund. The department policy of recording these fees in a proprietary fund is contrary to state law. Also, because the department is using an improper method to account for laboratory expenditures, the financial statements for the proprietary fund are meaningless.

The department elected to account for laboratory testing as a proprietary operation. Proprietary operations are governmental programs that operate like commercial enterprises. The programs are designed to charge for their services on a self-supporting

basis. Other examples of the department's programs of this type are Legal Services and Electronic Data Processing.

Currently, the department allocates a percentage of laboratory expenditures to the proprietary fund based on the amount of revenue it expects to receive during the year. For example, if the laboratory expects to receive \$40,000 for water tests and its budgeted expenditures for the year are \$600,000, the department will allocate 6.7 percent ($600,000 \div 40,000$) of all laboratory expenses to the proprietary fund. This procedure does not report the actual cost of personal services, supplies, and other items used to perform the tests. Also, the procedure defeats the purpose of a proprietary fund, which is to report whether or not a program or activity is self-supporting.

Alternatively, the department may elect to account for laboratory fees in either the General Fund or the Special Revenue Fund. The department should comply with state law regarding deposits of the fees or seek legislation to change the law. During the 1981 Legislative Session, department officials were unaware of the statutory requirement to deposit all laboratory fees in the General Fund. Consequently, the legislature appropriated spending authority in the Proprietary Fund rather than the General Fund. In any case, the department should record all expenditures relating to laboratory testing at cost.

RECOMMENDATION #12

WE RECOMMEND THE DEPARTMENT RECORD:

- A. LABORATORY FEES IN THE GENERAL FUND AS REQUIRED BY LAW.
- B. EXPENDITURES FOR LABORATORY TESTS AT COST.

Accounts Receivable

The department does not have procedures to ensure all revenue accruals are recorded on its financial statements. According to generally accepted accounting principles and state accounting policy, governmental fund revenues should be recorded using the modified accrual basis of accounting; and proprietary operation revenues should be recorded using the full accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are accrued when they are both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Under the full accrual basis of accounting, revenues are accrued when they are earned. During our field work we noted \$63,415 in revenue and accounts receivable not recorded on the Statewide Budgeting and Accounting System (SBAS) at fiscal year-end 1981-82.

These unaccrued revenues were a result of laboratory fees and facility licenses. Because the department has not established sufficient procedures to identify and record all accruals at fiscal year-end, the department recorded prior year adjustments amounting to \$16,693 which should have been accrued in a prior year.

Information concerning these accrual transactions was available to the department at each year-end or during each SBAS fiscal year-end closing. However, the department's accounting procedures are not sufficient to identify and record all revenue accrual transactions. The financial statements have been adjusted to properly report accounts receivable and revenue.

RECOMMENDATION #13

WE RECOMMEND THE DEPARTMENT RECORD ALL REVENUE ACCRUALS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND STATE ACCOUNTING POLICY.

Expenditure Abatements

All moneys received by the department in exchange for goods should be recorded as revenue. The department recorded collections from the sale of certain goods as expenditure abatements. Abatements reduce expenditures and restore spending authority.

The department received \$35,000 and \$31,000, respectively, in fiscal years 1980-81 and 1981-82 from the sale of rabies vaccine and wastewater operations manuals. These collections were recorded by reducing the expenditures incurred to purchase these items.

The collections do not fit the definition of an expenditure abatement as defined by the Montana Operations Manual and Generally Accepted Accounting Principles (GAAP). The manual defines abatements as collections of amounts erroneously expended. GAAP indicates abatements may be recorded for convenience reimbursements of services provided, such as copy machine costs and shared

utility costs. Recording revenue by offsetting expenditures eliminates the effect of the entire transaction on the accounting records and understates actual revenues and expenditures reported in the financial statements.

The collections recorded as expenditure abatements or recoveries by the department and their related expenditures were not budgeted. In the future, the department should budget for these revenues and the related expenditures.

RECOMMENDATION #14

WE RECOMMEND THE DEPARTMENT RECORD REVENUES RELATED TO THE SALE OF GOODS.

WIC Expenditures

The department maintains a Women, Infants, and Children (WIC) program revolving account at the Northwestern Bank of Helena to process drafts for food issued to persons eligible under the WIC program. The program expenditures are recorded on SBAS when the State Treasury reimburses the revolving account rather than when the food drafts are issued. This accounting practice results in an understatement of expenditures and overstatement of cash because drafts issued and paid in the last week of June are not recorded on SBAS until the subsequent fiscal year. Fiscal year 1980-81 and 1981-82 expenditures were misstated by \$51,793 and \$43,049, respectively, as a result of these transactions.

RECOMMENDATION #15

WE RECOMMEND THE DEPARTMENT RECORD THE EXPENDITURE OF THE WOMEN, INFANTS, AND CHILDREN PROGRAM FUNDS IN THE YEAR THE FOOD DRAFTS WERE ISSUED TO RECIPIENTS.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/449 3122



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS

JAMES H. GILLET
FINANCIAL/COMPLIANCE
AND CONTRACTED AUDITS

SCOTT A. SEACAT
PERFORMANCE/SUNSET AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Combined Balance Sheets - All Funds and Account Groups, and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds, the Combined Statement of Revenues, Expenses, and Changes in Retained Earnings and the Combined Statement of Changes in Financial Position for the Proprietary Fund Type of the Department of Health and Environmental Sciences as of June 30, 1982, and for the two fiscal years then ended. Except as set forth in the following paragraph, our examination was made in accordance with generally accepted auditing standards for governmental units and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The department did not report laboratory expenses in the Internal Service Fund at cost. The amount of expenses entered materially into the determination of the results of operations and changes in financial position for the years ended June 30, 1981 and June 30, 1982. The department did not maintain sufficient records to determine the reasonableness of laboratory expenses in

the Internal Service Fund, therefore, we do not express an opinion on the Combined Balance Sheet, Proprietary Fund Type, and the related Combined Statement of Revenues, Expenses, and Changes in Retained Earnings and Combined Statement of Changes in Financial Position.

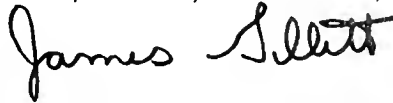
In our opinion, the Combined Balance Sheet - All Governmental Fund Types, Fiduciary Fund Type, and Account Groups and the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds, present fairly the financial position of such funds and account groups of the Department of Health and Environmental Sciences as of June 30, 1982 and the results of operations and the changes in fund balance of such funds for the two fiscal years then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of classifying funds as described in Note 1, have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Federal Grant Receipts and the Combining Statements for the Internal Service Funds are presented for additional analysis and disclosure purposes in compliance with "Guidelines for Financial and Compliance Audits of Federally Assisted Programs" and generally accepted accounting principles and are not a required part of the combined financial statements for the Department of Health and Environmental Sciences. The schedules, except for the Combining Statements for the Internal Service Funds on which we express no opinion, have been subjected to the

auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The column on the accompanying financial statements referred to in paragraph one captioned "Total (Memorandum Only)" is not necessary for a fair presentation of the financial statements, but is presented as additional analytical data. The supplemental information has been subjected to the tests and other auditing procedures applied in the examination of the financial statements above, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James H. Gillett". The signature is fluid and cursive, with the first name "James" being more prominent.

James H. Gillett, CPA
Deputy Legislative Auditor

August 27, 1982

Approved:

A handwritten signature in black ink, appearing to read "Robert R. Ringwood". The signature is cursive and somewhat stylized, with the first name "Robert" being the most legible part.

Robert R. Ringwood
Legislative Auditor

ASSETS

- Cash
- Accounts Receivable
- Accounts Receivable from
the Federal Government
- Due From Other
Governmental Entities
- Short-Term Investments
- Equipment
- Accumulated Depreciation
- Advances
- Prepayments
- Available to Pay
Current Liabilities
- Amount to be Provided
for the Payment of
Capital Leases
- Total Assets

LIABILITIES AND FUND EQUITY

- Accounts Payable
- Unearned Grant Revenue
- Due to Other
Governmental Entities
- Due to Consolidated Entity
- Obligation for
Capital Leases
- Total Liabilities

FUND EQUITY:

- Investments in
Fixed Assets
- Retained Earnings
- Fund Balance
- Total Fund Equity

Total Liabilities
and Fund Equity

The notes to the financial s

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINED BALANCE SHEET
ALL FUNDS AND ACCOUNT GROUPS
JUNE 30, 1982

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	PROPRIETARY FUND TYPE	ACCOUNT GROUPS		Total (Memorandum Only) June 30, 1982
	General	Special Revenue	Agency	Internal Service	General Fixed Asset	General Long- Term Debt	
ASSETS							
Cash	\$ 2,025	\$2,924,975	\$16,845	\$10,606			\$2,954,451
Accounts Receivable	22,201	121,510					143,711
Accounts Receivable from the Federal Government		630,863					630,863
Due From Other							
Governmental Entities	16,552	4,605		22,157			43,314
Short-Term Investments		21,560					21,560
Equipment				25,482	\$2,115,981		2,141,463
Accumulated Depreciation				(6,288)			(6,288)
Advances	7,421	91,907					99,328
Prepayments	3,435	7,847					11,282
Available to Pay							
Current Liabilities	280,397						280,397
Amount to be Provided for the Payment of Capital Leases						\$68,203	68,203
Total Assets	<u>\$332,031</u>	<u>\$3,803,267</u>	<u>\$16,845</u>	<u>\$51,957</u>	<u>\$2,115,981</u>	<u>\$68,203</u>	<u>\$6,388,284</u>
LIABILITIES AND FUND EQUITY							
Accounts Payable	\$265,836	\$1,227,049	\$16,845	\$13,679			\$1,523,409
Unearned Grant Revenue		455,385					455,385
Due to Other							
Governmental Entities	14,561	28,789		985			44,335
Due to Consolidated Entity	51,634						51,634
Obligation for Capital Leases						\$68,203	68,203
Total Liabilities	<u>332,031</u>	<u>1,711,223</u>	<u>16,845</u>	<u>14,664</u>		<u>68,203</u>	<u>2,142,966</u>
FUND EQUITY:							
Investments in Fixed Assets					\$2,115,981		2,115,981
Retained Earnings				37,293			37,293
Fund Balance	-0-	2,092,044	-0-			-0-	2,092,044
Total Fund Equity	<u>-0-</u>	<u>2,092,044</u>	<u>-0-</u>	<u>37,293</u>	<u>2,115,981</u>	<u>-0-</u>	<u>4,245,318</u>
Total Liabilities and Fund Equity	<u>\$332,031</u>	<u>\$3,803,267</u>	<u>\$16,845</u>	<u>\$51,957</u>	<u>\$2,115,981</u>	<u>\$68,203</u>	<u>\$6,388,284</u>

The notes to the financial statements are an integral part of this statement.

REVENUES:

- License & Permits
- Service Fees
- Investment Earnings
- Other Grants and Contracts
- Miscellaneous Income
- Federal Grants
- Total Revenues

EXPENDITURES:

- Health Planning & Resource Development
- Management Services Division
- Preventive Health Services
- Laboratory Division
- Hospital & Medical Facility
- Health Services Division
- Director's Office
- Food and Consumer Safety
- Solid Waste Management
- Air Quality Bureau
- Occupational Health
- Water Quality Bureau
- Environmental Health
- Subdivision Bureau
- Dental Health
- Total Expenditures

EXCESS OF CURRENT REVENUES OVER
(UNDER) CURRENT EXPENDITURES

Prior Year Adjustments

OTHER FINANCING SOURCES (USES):

Support From (To) Consolidated Entity

EXCESS OF REVENUES OVER (UNDER)
EXPENDITURES AND OTHER SOURCES (USES)

FUND BALANCE JULY 1, 1981

FUND BALANCE JUNE 30, 1982

The notes to the financial statements are

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	General Fund			Special Revenue Fund			TOTALS (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:									
License & Permits	\$ 200,000	\$ 223,405	\$ 23,405	\$ 1,356,937	\$ 925,563	\$ (431,374)	\$ 1,556,937	\$ 1,148,968	\$ (407,969)
Service Fees				80,000	62,260	(17,740)	80,000	62,260	(17,740)
Investment Earnings				2,100	2,193	93	2,100	2,193	93
Other Grants and Contracts	56,619	43,266	(13,353)	1,181,583	854,073	(327,510)	1,238,202	897,339	(340,863)
Miscellaneous Income				500	5,142	4,642	500	5,142	4,642
Federal Grants				17,111,264	13,460,082	(3,651,182)	17,111,264	13,460,082	(3,651,182)
Total Reveaues	<u>256,619</u>	<u>266,671</u>	<u>10,052</u>	<u>19,732,384</u>	<u>15,309,313</u>	<u>(4,423,071)</u>	<u>19,989,003</u>	<u>15,575,984</u>	<u>(4,413,019)</u>
EXPENDITURES:									
Health Planning & Resource Development	118,649	110,720	7,929	377,128	347,807	29,321	495,777	458,527	37,250
Management Services Divisioo	314,140	314,039	101	395,069	343,725	51,344	709,209	657,764	51,445
Preventive Health Services	143,811	119,065	24,746	464,349	455,110	9,239	608,160	574,175	33,985
Laboratory Division	350,605	350,181	424	246,270	243,056	3,214	596,875	593,237	3,638
Hospital & Medical Facility	378,187	346,536	31,651	1,675,812	1,035,050	640,762	2,053,999	1,381,586	672,413
Health Services Division	641,346	619,370	21,976	10,714,142	8,886,357	1,827,785	11,355,488	9,505,727	1,849,761
Director's Office	107,344	106,821	523	430,804	296,347	134,457	538,148	403,168	134,980
Food and Consumer Safety	421,091	399,896	21,195	58,960	41,220	17,740	480,051	441,116	38,935
Solid Waste Management	54,708	53,271	1,437	1,750,686	1,068,624	682,062	1,805,394	1,121,895	683,499
Air Quality Bureau	287,803	266,274	21,529	1,069,364	859,975	209,389	1,357,167	1,126,249	230,918
Occupational Health	144,227	101,921	42,306	416,612	220,933	195,679	560,839	322,854	237,985
Water Quality Bdreau	252,173	233,998	18,175	1,268,726	1,204,043	64,683	1,520,899	1,438,041	82,858
Environmental Health	86,185	85,608	577	46,716	44,948	1,768	132,901	130,556	2,345
Subdivision Bureau				263,117	215,924	47,193	263,117	215,924	47,193
Dental Health	42,586	42,104	482	256,048	198,222	57,826	298,634	240,326	58,308
Total Expenditures	<u>3,342,855</u>	<u>3,149,804</u>	<u>193,051</u>	<u>19,433,803</u>	<u>15,461,341</u>	<u>3,972,462</u>	<u>22,776,658</u>	<u>18,611,145</u>	<u>4,165,513</u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(3,086,236)	(2,883,133)	203,103	298,581	(152,028)	(450,609)	(2,787,655)	(3,035,161)	(247,506)
Prior Year Adjustments	(56,278)	(56,278)	-0-	38,426	38,426	-0-	(17,852)	(17,852)	-0-
OTHER FINANCING SOURCES (USES):									
Support From (To) Consolidated Entity	<u>3,142,514</u>	<u>2,939,411</u>	<u>(203,103)</u>				<u>3,142,514</u>	<u>2,939,411</u>	<u>(203,103)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	337,007	(113,602)	(450,609)	337,007	(113,602)	(450,609)
FUND BALANCE JULY 1, 1981	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>2,205,646</u>	<u>2,205,646</u>	<u>-0-</u>	<u>2,205,646</u>	<u>2,205,646</u>	<u>-0-</u>
FUND BALANCE JUNE 30, 1982	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,542,653</u>	<u>\$ 2,092,044</u>	<u>\$ (450,609)</u>	<u>\$ 2,542,653</u>	<u>\$2,092,044</u>	<u>\$ (450,609)</u>

The notes to the financial statements are an integral part of this statement.

REVENUES:

- License & Permits
- Service Fees
- Investment Earnings
- Other Grants and Contracts
- Miscellaneous Income
- Federal Grants
- Total Revenues

EXPENDITURES:

- Health Planning & Resource Development
- Management Services Division
- Preventive Health Services
- Laboratory Division
- Hospital & Medical Facility
- Environmental Health
- Legal Division
- PCB Response Team
- Health Services Division
- Total Expenditures

EXCESS OF CURRENT REVENUES OVER
(UNDER) CURRENT EXPENDITURES

Prior Year Adjustments

OTHER FINANCING SOURCES (USES):

Support From (To) Consolidated Entity

EXCESS OF REVENUES OVER (UNDER)
EXPENDITURES AND OTHER SOURCES (USES)

FUND BALANCE JULY 1, 1980

FUND BALANCE JUNE 30, 1981

The notes to the financial statements are

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

	General Fund			Special Revenue Fund			TOTALS (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:									
License & Permits	\$ 200,000	\$ 199,740	\$ (260)	\$ 1,138,000	\$ 1,025,721	\$ (112,279)	\$ 1,338,000	\$ 1,225,461	\$ (112,539)
Service Fees				60,000	63,585	3,585	60,000	63,585	3,585
Investment Earnings				1,900	2,058	158	1,900	2,058	158
Other Grants and Contracts	100,000	108,367	8,367	824,655	621,890	(202,765)	924,655	730,257	(194,398)
Miscellaneous Income				750		(750)	750	-0-	(750)
Federal Grants				16,482,165	14,022,975	(2,459,190)	16,482,165	14,022,975	(2,459,190)
Total Revenues	<u>300,000</u>	<u>308,107</u>	<u>8,107</u>	<u>18,507,470</u>	<u>15,736,229</u>	<u>(2,771,241)</u>	<u>18,807,470</u>	<u>16,044,336</u>	<u>(2,763,134)</u>
EXPENDITURES:									
Health Planning & Resource Development	129,333	123,490	5,843	370,980	352,083	18,897	500,313	475,573	24,740
Management Services Division	398,333	372,816	25,517	665,544	635,709	29,835	1,063,877	1,008,525	55,352
Preventive Health Services	218,580	205,257	13,323	428,180	284,107	144,073	646,760	489,364	157,396
Laboratory Division	247,538	245,972	1,566	407,986	365,717	42,269	655,524	611,689	43,835
Hospital & Medical Facility	257,600	252,546	5,054	1,944,568	1,239,662	704,906	2,202,168	1,492,208	709,960
Environmental Health	1,075,464	1,057,981	17,483	4,290,874	3,251,162	1,039,712	5,366,338	4,309,143	1,057,195
Legal Division	27,713	27,664	49	68,369	55,828	12,541	96,082	83,492	12,590
PCB Response Team				28,692	27,962	730	28,692	27,962	730
Health Services Division	598,308	563,562	34,746	10,440,709	9,306,522	1,134,187	11,039,017	9,870,084	1,168,933
Total Expenditures	<u>2,952,869</u>	<u>2,849,288</u>	<u>103,581</u>	<u>18,645,902</u>	<u>15,518,752</u>	<u>3,127,150</u>	<u>21,598,771</u>	<u>18,368,040</u>	<u>3,230,731</u>
EXCESS OF CURRENT REVENUES OVER (UNDER) CURRENT EXPENDITURES	(2,652,869)	(2,541,181)	111,688	(138,432)	217,477	355,909	(2,791,301)	(2,323,704)	467,597
Prior Year Adjustments	(10,833)	(10,833)	-0-	204,563	204,563	-0-	193,730	193,730	-0-
OTHER FINANCING SOURCES (USES):									
Support From (To) Consolidated Entity	<u>2,663,702</u>	<u>2,552,014</u>	<u>(111,688)</u>	<u>24,726</u>	<u>24,726</u>	<u>-0-</u>	<u>2,688,428</u>	<u>2,576,740</u>	<u>(111,688)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	-0-	-0-	-0-	90,857	446,766	355,909	90,857	446,766	355,909
FUND BALANCE JULY 1, 1980	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,758,880</u>	<u>1,758,880</u>	<u>-0-</u>	<u>1,758,880</u>	<u>1,758,880</u>	<u>-0-</u>
FUND BALANCE JUNE 30, 1981	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,849,737</u>	<u>\$ 2,205,646</u>	<u>\$ 355,909</u>	<u>\$ 1,849,737</u>	<u>\$ 2,205,646</u>	<u>\$ 355,909</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	<u>PROPRIETARY FUND TYPE</u>
	<u>Internal Service</u>
OPERATING REVENUES:	
Charges for Services	\$269,305
Total Revenues	<u>269,305</u>
OPERATING EXPENDITURES:	
Personal Services	233,500
Contracted Services	3,784
Supplies & Materials	7,784
Communication	3,470
Travel	15
Rent	8,266
Utilities	219
Repairs & Maintenance	2,379
Depreciation	2,548
Other Expenses	717
Total Expenditures	<u>262,682</u>
OPERATING INCOME	6,623
Prior Year Adjustments	<u>302</u>
NET INCOME	6,925
RETAINED EARNINGS, JULY 1, 1981	<u>24,517</u>
RETAINED EARNINGS, JUNE 30, 1982	<u>\$ 31,442</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

PROPRIETARY FUND TYPE

Internal Service

OPERATING REVENUES:	
Charges for Services	\$168,427
Total Revenues	<u>168,427</u>
OPERATING EXPENDITURES:	
Personal Services	137,619
Contracted Services	1,082
Supplies & Materials	3,254
Communication	27
Travel	275
Rent	34
Utilities	92
Repairs & Maintenance	333
Depreciation	514
Other Expenses	371
Total Expenditures	<u>143,601</u>
OPERATING INCOME	24,826
Prior Year Adjustments	<u>(3,663)</u>
NET INCOME	21,163
RETAINED EARNINGS, JULY 1, 1980	<u>3,354</u>
RETAINED EARNINGS, JUNE 30, 1981	<u>\$ 24,517</u>

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
PROPRIETARY FUND TYPE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1982

	<u>PROPRIETARY FUND TYPE</u>			
	<u>Internal Service</u>			
	<u>1982</u>	<u>Total</u>	<u>1981</u>	<u>Total</u>
Source of Working Capital:				
Operations:				
Net Income (Loss)	\$ 6,925		\$21,163	
Items Not Requiring (Providing)				
Working Capital:				
Depreciation	2,548		514	
Total Sources of Working Capital	9,473		21,677	
Use of Working Capital:				
Acquisition of Equipment	1,332		15,073	
Total Uses of Working Capital	1,332		15,073	
Net Increase (Decrease) in Working Capital	8,141		6,604	
Elements of Net Increase (Decrease)				
in Working Capital:				
Cash	(23,435)		21,090	
Receivables	8,490		13,667	
Advances			(274)	
Payables	(5,929)		2,121	
Inter-Entity Loans Payable	29,015		(30,000)	
Net Increase (Decrease) in Working Capital	\$ 8,141		\$ 6,604	

The notes to the financial statements are an integral part of this statement.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES (DHES)

Notes to the Financial Statements

Fiscal Years Ending June 30, 1981 and 1982

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System.

The state of Montana utilizes the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of incurred costs or legal liability and revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt.

b) Description of Funds

On July 1, 1979, the state of Montana accounts were organized by a fund structure as outlined in section 17-02-102, MCA (temporary). For financial presentation, these funds have been reclassified according to the Governmental Accounting and Financial Reporting Principles Statement 1 issued by the National Council on Governmental Accounting.

GOVERNMENTAL FUND TYPES

General Fund -- To account for receipt and expenditure of money allocated to the department by the state for support of the department's programs and agency administration.

Special Revenue Fund -- To account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. This fund corresponds to the Earmarked Revenue Fund and the Federal and Private Revenue Fund within the State Treasury fund structure.

Agency Fund -- Accounts for assets held as an agent by the department for other governments.

PROPRIETARY FUND TYPES

Internal Service Funds -- To account for the financing of goods or services provided by one division or bureau of DHES, or to other governmental units, on a cost-reimbursement basis. These funds are recorded on the accrual basis of accounting.

ACCOUNT GROUPS

General Fixed Assets -- Accounts for all land, buildings, and equipment of the department. Fixed assets are valued at cost. No depreciation is recorded on general fixed assets.

General Long-Term Debt -- Accounts for general unmatured long-term indebtedness of the governmental unit.

c) Annual and Sick Leave

Annual leave and sick leave costs are not recorded until leave is taken. Upon termination, qualifying employees with unused accumulated annual and sick leave receive 100 percent payment for annual leave and 25 percent payment for sick leave. The liability amount associated with unused annual and sick leave at June 30, 1982 is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated when an employee terminates and is not readily determinable at June 30, 1982.

d) Budget Information

The state utilizes a fixed biennial basis of budgeting. Under this method, appropriations of a specific dollar amount are set for the biennium. Budgets for the department are adopted on a biennium basis by the Montana State Legislature for all operating entities. Budgets for the General and Special Revenue funds are adopted in accordance with generally accepted accounting principles. At the end of each year, General Fund and Special Revenue Fund

appropriation authority revert to the fund of original appropriation. The reverted appropriation authority may be used in the subsequent year as authorization for valid prior year obligations. Budget amendments represent the authorization to spend funds not available for consideration by the legislature. They are subject to approval of the Governor.

2. EMPLOYEES' RETIREMENT SYSTEM

The department employees are covered by the Public Employees' Retirement System (PERS). Under the plan, the department contributed 6.2 percent and 6.32 percent of an employee's gross wages respectively in fiscal years 1980-81 and 1981-82. The employees contributed 6 percent of gross wages to PERS. The department contributed \$301,601 and \$305,509, respectively in fiscal years 1980-81 and 1981-82.

The state's policy is to fund accrued pension costs. At June 30, 1982, the Public Employees' Retirement System was actuarially sound according to a report by the System's actuary. The unfunded past service and the actuarially computed value of vested benefits for employees of DHES can not be separated from those amounts computed for the system taken as a whole.

3. INVENTORIES

Supplies inventories are expensed at the time of purchase.

4. ACCOUNTS RECEIVABLE

Based on past experience of collectibility, the accounts receivable balance shown on the accompanying balance sheet does not include an allowance for doubtful accounts.

5. INVESTMENTS

Investments are stated at cost increased by the amount of interest. Market values of the investments at June 30, 1982 were \$21,560.

6. INSURANCE

The department is insured through insurance plans administered by the Department of Administration.

7. LEASES

The following is a schedule by years of future minimum lease payments to IBM company under capital leases together with the present value of the net minimum lease payments.

<u>Year Ending June 30:</u>	<u>Lease Payments</u>	<u>Amounts Representing Interest</u>
1983	\$27,163	\$3,743
1984	35,611	1,564
1985	10,764	28
Total	<u>\$73,538</u>	<u>\$5,335</u>

8. CHANGES IN ACCOUNTING PROCEDURES

The department changed its expenditures programs on July 1, 1981 to increase control of appropriations and expenditures. The Environmental Health program is now split into the following programs: Food and Consumer Safety, Solid Waste Management, Air Quality, Occupational Health, Water Quality, Subdivision, and Environmental Health Administration. The Dental Health program is reported separate from the Health Services Division and the director's office is reported separate from Management Services Division.

The department included the Data Processing Unit expenditure in the Management Services program prior to July 1, 1981, since then it has been established as a Proprietary Fund. The bureau provides services to other bureaus or divisions on a cost reimbursement basis.

In fiscal year 1980-81 the Laboratory and the Legal Divisions proprietary operations were combined into one internal service fund. On July 1, 1981 the department began recording the laboratory and legal functions as separate internal service funds.

9. SUPPLEMENTAL INFORMATION

The items on the financial statements titled Total (Memorandum Only) are not necessary for fair presentation, but represent supplemental information and not consolidated financial information.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINING BALANCE SHEET
INTERNAL SERVICES FUND
JUNE 30, 1982

	<u>Data Processing</u>	<u>Laboratory</u>	<u>Legal Division</u>	<u>Total</u>
ASSETS				
Cash	\$-0-	\$3,845	\$ 6,761	\$10,606
Accounts Receivable	240	5,003	16,914	22,157
Equipment	6,044		19,438	25,482
Accumulated Depreciation	(604)		(5,684)	(6,288)
Total Assets	<u>\$5,680</u>	<u>\$8,848</u>	<u>\$37,429</u>	<u>\$51,957</u>
LIABILITIES AND FUND EQUITY				
Accounts Payable	\$3,072	\$1,702	\$ 8,905	\$13,679
Due to Other Governmental Entities	985			985
Total Liabilities	<u>4,057</u>	<u>1,702</u>	<u>8,905</u>	<u>14,664</u>
Fund Equity/Retained Earnings	<u>1,623</u>	<u>7,146</u>	<u>28,524</u>	<u>37,293</u>
Total Liabilities and Fund Equity	<u>\$5,680</u>	<u>\$8,848</u>	<u>\$37,429</u>	<u>\$51,957</u>

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINING STATEMENT OF REVENUES AND EXPENSES
INTERNAL SERVICES FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1982

	<u>Laboratory</u>	<u>Data Processing</u>	<u>Legal Division</u>	<u>Combined Total</u>
OPERATING REVENUES:				
Charges for Services	\$28,167	\$59,278	\$181,860	\$269,305
Total Revenues	<u>28,167</u>	<u>59,278</u>	<u>181,860</u>	<u>269,305</u>
OPERATING EXPENDITURES:				
Personal Services	20,788	58,996	153,716	233,500
Contracted Services	81	1,194	2,509	3,784
Supplies & Materials	5,190	231	2,363	7,784
Communication	-0-	576	2,894	3,470
Travel	-0-	-0-	15	15
Rent	40	1,863	6,363	8,266
Utilities	219	-0-	-0-	219
Repairs & Maintenance	571	-0-	1,808	2,379
Depreciation		604	1,944	2,548
Other Expenses	-0-	235	482	717
Total Operating Expenses	<u>26,889</u>	<u>63,699</u>	<u>172,094</u>	<u>262,682</u>
OPERATING INCOME	1,278	(4,421)	9,766	6,623
Prior Year Adjustments	<u>(2,758)</u>	<u>-0-</u>	<u>3,060</u>	<u>302</u>
NET INCOME	<u>\$(1,480)</u>	<u>\$(4,421)</u>	<u>\$12,826</u>	<u>\$ 6,925</u>

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
COMBINING STATEMENT OF REVENUES AND EXPENSES
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1981

Internal Services

OPERATING REVENUES:

Charges for Services	\$168,427
Total Operating Revenues	<u>168,427</u>

OPERATING EXPENDITURES:

Personal Services	137,619
Contracted Services	1,082
Supplies & Materials	3,254
Communication	27
Travel	275
Rent	34
Utilities	92
Repairs & Maintenance	333
Depreciation	514
Other Expenses	371
Total Operating Expenses	<u>143,601</u>

OPERATING INCOME	24,826
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Prior Year Adjustments	<u>(3,663)</u>
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NET INCOME	<u>\$ 21,163</u>
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<u>Object of Revenue</u>	<u>Name</u>
1001	Health Planning
1002	Hospital Construct
2051	Health Statistics
2070	Statewide Noise Cc
3000	Preventive Health
3021	Immunization
3022	Influenza
3023	Venereal Disease
3045	Risk Reduction
3061	Hypertension
3140	Comprehensive Heal
5030	Medicare Cert. Tit
5031	Medicaid Cert. Tit
5042	EMS-Basic Life Sup
5042	EMS-Basic Life Sup
5044	EMS Adv. Medical T
5045	EMS Region-3A
5049	EMS Region 2B
6003	Insulation Inspect
6007	Inter-State Food I
6008	Information & Ed.
6009	Mosquito Managemen
6010	Solid Waste
6011	Milled Waste Resou
6016	Georgetown
6016	Sacajawea
6016	Sacajawea Park-Gec
6030	Air Quality
6031	Air Quality Surfac
6031	Air Quality Surfac
6042	HUD Housing Radiat
6044	EPA Radon
6045	HUD Remedial Actio
6050	Water Quality
6052	Logan Creek
6053	Statewide 208
6054	Safe Drinking Wate
6056	EPA-JTCC Training
6057	Biological Benthic
6070	Construction Grant
6132	Scobey/Canada Air
6156	Scobey/Canada Wate
6514	Lake Inventory

MONTANA DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
SCHEDULE OF FEDERAL GRANT RECEIPTS
FOR FISCAL YEARS ENDING JUNE 30, 1981 AND 1982

<u>Object of Revenue</u>	<u>Name</u>	<u>Grant Number</u>	<u>1982 Gross Receipts</u>	<u>1981 Gross Receipts</u>
1001	Health Planning	08P-000023-05-1	\$ 333,000	\$ 430,000
1002	Hospital Construction	Project #91	-0-	3,330
2051	Health Statistics	233-79-2042	55,000	55,000
2070	Statewide Noise Control	CS-807609-01	9,722	15,043
3000	Preventive Health Block	9-82B1MTPRVS	260,000	-0-
3021	Immunization	08H-000011-11-1	110,400	85,090
3022	Influenza	CCH080147-01-1	-0-	22,000
3023	Venereal Disease	08H-00110-08-2	88,500	71,000
3045	Risk Reduction	H11/CCH800240-02	60,500	24,450
3061	Hypertension	08-H-000450-02-0	125,000	100,000
3140	Comprehensive Health Grant	08X-306200-81-0	-0-	138,333
5030	Medicare Cert. Title 18	05-8105MT5000	165,000	298,000
5031	Medicaid Cert. Title 19	05-7805MCH118-2	129,210	152,770
5042	EMS-Basic Life Support	08000328-02-0	20,000	-0-
5042	EMS-Basic Life Support	08H00328-02-0	-0-	170,000
5044	EMS Adv. Medical Training	08H-000441-02-0	230,000	290,000
5045	EMS Region-3A	08-H-000484-01-0	525,000	271,000
5049	EMS Region 2B	08-H000520-01-0	77,000	-0-
6003	Insulation Inspection	CPSC-C-80-1224	2,000	5,459
6007	Inter-State Food Inspection	223-81-4103	30,377	42,799
6008	Information & Ed. CPSC	CPSC-C-77-0076	308	2,212
6009	Mosquito Management	E008274010	9,233	6,767
6010	Solid Waste	D008199-81-0	175,612	202,302
6011	Milled Waste Resources	R-805012012	-0-	36,503
6016	Georgetown	S-0082980-01-1	42,097	22,235
6016	Sacajawea	S-0082970-01-1	41,221	190,630
6016	Sacajawea Park-Georgetown Lake	SS008298010	967	-0-
6030	Air Quality	A008160820	846,361	699,498
6031	Air Quality Surface Mining Op.	G5123301	26,877	-0-
6031	Air Quality Surface Mining Op.	G5113013	-0-	22,352
6042	HUD Housing Radiation Survey	DU208G000004	1,792	19,646
6044	EPA Radon	68-01-6100	155,763	20,823
6045	HUD Remedial Action	H5303CA	60,177	-0-
6050	Water Quality	1008300-81-0	410,313	331,970
6052	Logan Creek	FH133401457	-0-	60,186
6053	Statewide 208	P008154016	267,226	369,051
6054	Safe Drinking Water	F00814682-0	379,139	393,418
6056	EPA-JTCC Training	T008326-01	7,432	-0-
6057	Biological Benthic Study	140800016665	22,209	24,271
6070	Construction Grant	C300000-81-0	267,914	310,994
6132	Scobey/Canada Air Quality	R001818730	-0-	52,975
6156	Scobey/Canada Water Quality	R001818730	-0-	3,002
6514	Lake Inventory	S008258-01-0	70,453	20,000

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<u>Object of Revenue</u>	<u>Name</u>
9000	MCH Block
9026	Supplemental Secu
9034	Improved Pregnanc
9062	Community Flourid
9062	Community Flourid
9063	Statewide Dental
9100	MCH-A (Maternal &
9101	MCH-B
9215	Cleft Palate
9220	CC-A (Crippled Ch
9221	CC-B
9320	EPSDT Title 19
9400	Family Planning -
9412	Family Planning T
9501-9	Child Nutrition
9510	WIC
9521	WIC Teenage Pregn
9550	WIC
9551	WIC Data System
	Total Grant Re

MONTANA DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

SCHEDULE OF FEDERAL GRANT RECEIPTS

FOR FISCAL YEARS ENDING JUNE 30, 1981 AND 1982

(Continued)

<u>Object of Revenue</u>	<u>Name</u>	<u>Grant Number</u>	<u>1982 Gross Receipts</u>	<u>1981 Gross Receipts</u>
9000	MCH Block	3-82B1MTMCHS	750,000	-0-
9026	Supplemental Security Income	08X-304100-81-0	60,000	20,000
9034	Improved Pregnancy Outcome	08H-00463-02-0	343,000	270,000
9062	Community Flouridation Grant	H10/CCH800283-11	24,900	-0-
9062	Community Flouridation Grant	H10/CCH800283-01	-0-	15,000
9063	Statewide Dental Grant	08D000166-01-1	95,200	-0-
9100	MCH-A (Maternal & Child Health)	08X-301000-81-3	140,000	530,000
9101	MCH-B	08X-302000-81-3	200,000	390,000
9215	Cleft Palate	08H000008-25	67,500	59,000
9220	CC-A (Crippled Children)	08X-303000-81-3	175,000	335,000
9221	CC-B	08X-304000-81-3	145,000	79,000
9320	EPSDT Title 19	8100700033	25,748	98,711
9400	Family Planning - Title X	08H000094-09-01	890,000	810,000
9412	Family Planning Title XX	820250012	206,550	206,550
9501-9	Child Nutrition	12-35-3084	1,792,305	2,199,220
9510	WIC	12-35-3084	-0-	4,543,597
9521	WIC Teenage Pregnancy Outcome	593198982	1,654	6,369
9550	WIC	12-35-3084	3,940,148	-0-
9551	WIC Data System	5931981128	33,620	-0-
	Total Grant Receipts		<u>\$13,896,428</u>	<u>\$14,525,556</u>

AGENCY RESPONSES



TED SCHWIDEN, GOVERNOR

COGSWELL BUILDING

STATE OF MONTANA

HELENA, MONTANA 59620

November 29, 1982

Robert R. Ringwood, CPA
Legislative Auditor
Room B5, State Capitol

Dear Mr. Ringwood:

The Department of Health and Environmental Sciences has reviewed the audit for fiscal years 1981 and 1982. The agency's responses are as follows:

1. Film Library

The Department of Health and Environmental Sciences contacted the Office of Public Instruction on November 23, 1982, and have agreed to meet and investigate possible consolidation of film library services. Since our library contains materials owned by the Department of Institutions, they will also be joining in the discussion. Various management schemes, funding arrangements, and other areas of concern will be investigated. If consolidation should be feasible, then a target date would be July 1, 1983, for implementation.

2. Subrecipients Audits

Agree

3. Internal Auditor

- A. Agree
- B. Agree
- C. Agree

4. Financial Status Report

Agree

5. Matching Funds

- A. Agree
- B. Agree

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MONTANA LEGISLATIVE AUDITOR

6. Equipment and Inventory Accountability

- A. Agree
- B. Agree
- C. Agree
- D. Agree

7. Film Inventory

- A. Agree
- B. Agree
- C. Agree

8. Replacement Parts

Agree

9. Supplies Inventory

Agree

10. Radioactive Substances

The Department of Health and Environmental Sciences requested funding from the 1981 Legislature to implement licensing regulation and surveillance of radioactive materials in the state. The Legislature did not appropriate funds for the program. The Department has again requested funding from the 1983 Legislature but the Office of Budget and Program Planning (OBPP) of the Governor's Office disapproved the requested budget modification. The Department recommends the program be funded or the applicable laws be stricken from the statute.

11. Internal Controls

- A. Agree
- B. Agree
- C. Agree

12. Accounting for Laboratory Testing

A. The 1981 Legislature included fees generated from laboratory testing as part of the funding base for the Laboratory Division. The Department of Health and Environmental has requested the 1983 Legislature to fund the Laboratory with general fund and deposit the fees generated from lab testing to the general fund.

B. Agree

13. Accounts Receivable

Agree

Robert R. Ringwood, CPA
November 29, 1982
page 3

14. Expenditure Abatements

Agree

15. WIC Expenditures

Agree

Sincerely,

A handwritten signature in dark ink, appearing to read "John J. Drynan". The signature is fluid and cursive, with a large initial "J" and "D".

John J. Drynan, M.D., Director
Department of Health & Environmental Sciences

MONTANA

DEPARTMENT OF

FISH, WILDLIFE AND PARKS



Helena, MT 59620
November 30, 1982

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DEC 1 1982

MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

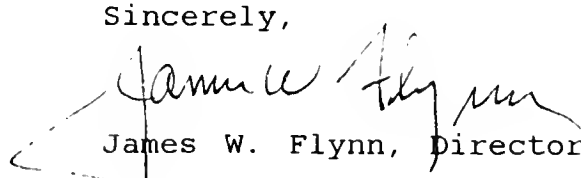
The Department of Fish, Wildlife, and Parks has reviewed the report section recommending consolidation of state agency film centers under the Office of Public Instruction, resulting from the audit of the Department of Health and Environmental Sciences. We concur with the recommendation and would like to add the following comments.

Our past policy has been to provide films free of charge. We would like to retain the prerogative to make decisions regarding fee charges for films purchased or produced by this department.

We are also concerned about charges to our agency from the Office of Public Instruction; and that prompt service is provided to those interested in our films.

We look forward to discussing these specific issues with the Office of Public Instruction and appreciate the opportunity to respond to this recommendation.

Sincerely,


James W. Flynn, Director

CV/fo
112/DD



DEPARTMENT OF COMMERCE



TED SCHWINDEN, GOVERNOR

CAPITOL STATION
1424 9TH AVENUE

STATE OF MONTANA

(406) 449-3494

HELENA, MONTANA 59620-0401

RECEIVED

DEC 1 1982

MONTANA LEGISLATIVE AUDITOR

November 30, 1982

Mr. Robert Ringwood
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

Attached is the original reply to the recommendation, relating to Film Libraries, in the published report. This reply was written, at my request, by Mike Ferguson, Administrator of the Aeronautics Division. It was typed in the manner you require for printing.

Also, attached is the six-page recommendation you sent with your letter of November 23, 1982.

Sincerely,

Gary Buchanan
DIRECTOR

A handwritten signature in cursive script, appearing to read "Shirley Miller".

BY: Shirley Miller
Special Assistant to the Director

1. Full-time employees(FTE). The Aeronautics Division utilizes a temporary, part-time person on an "as needed basis" to handle rewind, splicing, and mailing of an estimated ten films per week throughout the school year which amounts to about eight months.

This part-time temporary employee is utilized as needed to help with aviation safety and education projects such as bulk mailing, filing, and pilot and aircraft registration. This employee is a Capital High School student and is employed through the Distributive Education program and works approximately two hours per day of which about half is attributable to film work. This employee is filling a vacant FTE which is for a fireman at the West Yellowstone Airport during the summer season. The pay grade is a Grade 6, Step 1, and is \$4.98 per hour.

2. Film repair and maintenance equipment. The Aeronautics Division's rewind equipment is old, not complicated and requires virtually no maintenance. Film splicing is done by hand on an inexpensive "home type" splicing jig. On the average, probably fewer than two splices a week are made.

Housing of films. Films are stored in wall cabinets in a "bulk mailing/file room." These cabinets otherwise would not be used.

3. Film catalogs. Catalogs are 17" X 11" folded twice, attractively designed at a minimum cost. One printing to be used over a three- to five-year time period at an average per year cost of approximately \$110 plus cost of bulk rate film postage for approximately seven hundred which are mailed to Montana schools and aviation education groups. Many catalogs are personally delivered to aviation and aerospace groups. Much of the distribution would not get to the "right" people/groups through the OPI catalog which is much larger and harder to use.

Pages 4 and 5 - Postage rates. The Aeronautics Division takes advantage of the lowest rate offered by the U.S. Postal Service which is called "Library Rate" and is the same as Fourth Class which is the same rate given OPI.

Page 5 - Reference to "State cost savings." The Aeronautics Division moneys are derived solely from aviation sources and are used to foster and promote the aviation interests in Montana through education.

Page 6 - Aeronautics Division films are loaned at NO COST to users because it is their goal to foster and promote aerospace and aviation education and education safety. Fees would cause the film library to be ineffective and defeat its purpose. Pilots and aviation groups who are major users of these films would be paying twice for the use.

Films are frequently used in presentations to various groups; aviation education in the schools, safety education for pilots, presentations for the public, and, in all cases, ready accessibility of the "right" film for a given purpose is essential. Much time would be wasted if the Division had to travel to OPI to

pick up a film that may be out, worn out or not available. The Division is often called upon to show film during presentations on weekends and in the evenings, and it is extremely convenient to be able to pick up a film upon departing the office in an airplane. OPI would often be closed. The Division also hosts the CAP Cadet meetings weekly and films are available for their education programs. Many films are also picked up for schools or groups by pilots who are on flights into Helena. The Aeronautics Division uses the film for recurrent flight safety training of their own pilot personnel.

Pages 6 and 7 - Decrease in contact with the public is an important aspect to be considered. Much of the Aeronautics Division's film distribution is based on personal contact - recommendations and often explanations regarding subject matter or use go with the film.

Although it is doubtful that merging of the film libraries, even on paper, shows to be an economy move, it should be pointed out that several aspects related to cost must be considered:

1. Time spent in all aspects of operation should be considered, and it is felt that the overall cost to the Aeronautics Division will increase significantly.
2. Cost of outside film repair, replacement should not differ significantly.
3. OPI catalog would be ineffective for Division purposes and cost to the Aeronautics Division probably would be significantly more.
4. The Aeronautics Division cost of storage and equipment cannot be used as a factor. Equipment is paid for and in good condition but very old. It would be worthless for salvage value. (Re: Page 5)
5. Postage charges should be exactly the same for each library.

In conclusion, consolidation of the Aeronautics Division film library would virtually eliminate its effectiveness to the point of not doing the job intended and its elimination from the Division safety and education programs would be a very real possibility.

MONTANA STATE LIBRARY

~~930 EAST LYNDAL AVE~~
1515 E. Sixth Avenue

HELENA, MONTANA 59601
59620

December 2, 1982

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DEC 2 1982

MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
State Capitol Building
Helena, Montana 59620

Dear Mr. Ringwood:

I have received the discussion draft of recommendations from your office regarding film libraries.

Montana State Library and the Office of Public Instruction have had discussions in the past concerning the two film services. Consolidation has not been pursued because the two agencies have recognized the difficulties involved.

Montana State Library has a number of concerns regarding consolidation of film libraries:

The availability of films for public library users and community groups from a consolidated film library. Schools are heavy users of films and book films far in advance. The number of films for public library use is severely restricted.

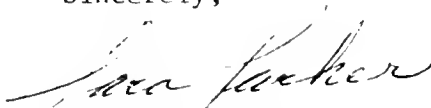
The present fee structure of the Montana Public Library Film Service is well below that of the fee structure of the Office of Public Instruction film service. Increasing fees to the level charged by the Office of Public Instruction poses a real hardship to the users of the Public Library Film Service.

Funding for the consolidated film service. This is not addressed in the report.

The Butte-Silver Bow Public Library is providing excellent service at a minimal cost. The libraries using it have commended the service. Public libraries throughout the state would resist any merger as it would directly affect their offering of films to their communities.

Thank you for the invitation to respond to the recommendation.

Sincerely,



Sara Parker
State Librarian



OFFICE OF PUBLIC INSTRUCTION

STATE CAPITOL
HELENA, MONTANA 59620
(406) 449-3095

Ed Argenbright
Superintendent

November 30, 1982

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MONTANA LEGISLATIVE AUDITOR

Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Mr. Ringwood:

Please find attached the Office of Public Instruction's written reply to your recommendation for consolidating the film libraries of DHES; FWP; Commerce, Division of Aeronautics; the Montana State Library and the Office of Public Instruction.

Sincerely,


Gary W. Steuerwald, Ed.D.
Assistant Superintendent

GWS:dg

The Office of Public Instruction concurs with the Legislative Auditor's recommendation to consolidate the film libraries of DHES; FWP; Commerce, Aeronautics Division; the Montana State Library and the Office of Public Instruction into a single library housed in the Office of Public Instruction. The Office of Public Instruction further concurs with the concerns expressed by DHES, FWP, the Aeronautics Division and the Montana State Library. We further stipulate that the Office of Public Instruction must receive substantial funding from the general fund on a continuing basis to ensure the successful management of the Library. The Office of Public Instruction agrees that an additional FTE is required for the maintenance and distribution of the films. The Office of Public Instruction, however, takes issue with the Legislative Auditor's assumption that the Office of Public Instruction's computer and accounting personnel can absorb the extra duties attached to administering the other four libraries. Additional funding must be provided to purchase computer services in addition to one FTE in the accounting office to process and verify financial transactions concerning the five separate agencies of the film library.

